

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Ypsilanti District Library</u>	County Washtenaw
Audit Date November 30, 2005	Opinion Date January 20, 2006	Date Accountant Report Submitted To State: May 30, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

Ypsilanti District Library

**Financial Report
with Supplemental Information
November 30, 2005**

Ypsilanti District Library

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Independent Auditor's Report

To the Board of Trustees
Ypsilanti District Library

We have audited the accompanying basic financial statements of Ypsilanti District Library as of and for the year ended November 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of Ypsilanti District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Ypsilanti District Library as of November 30, 2005 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules - General Fund and Debt Service Fund, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Library's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

January 20, 2006



A worldwide association of independent accounting firms

Ypsilanti District Library

Management's Discussion and Analysis

This discussion and analysis of Ypsilanti District Library's (the "Library") financial performance provides an overview of the Library's financial activities for the fiscal year ended November 30, 2005. Please read it in conjunction with the Library's financial statements.

Using this Annual Report

The funds are presented on the modified accrual basis of accounting, which is a short-term view that tells us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. This information is then adjusted to the full accrual basis to present a longer-term view of the Library as a whole. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The modified accrual basis financial statements provide detail information about the Library's current financial resources. This information is important as it demonstrates compliance with various state laws and shows the stewardship of the Library's annual property tax and other revenue.

The Library's full accrual basis financial statements present information about the Library's total economic resources, including long-lived assets and long-term obligations. This information is important as it recognizes the long-term ramifications of decisions made by the Library on an ongoing basis.

Condensed Financial Information

The following table shows key financial information in a condensed format:

Statement of Net Assets

	November 30	
	2005	2004
Assets		
Cash and investments	\$ 4,316,507	\$ 3,817,665
Capital assets	18,619,686	19,177,315
Other assets	217,051	138,026
Total assets	23,153,244	23,133,006
Liabilities		
Long-term liabilities	14,553,338	15,268,870
Other liabilities	487,417	335,547
Total liabilities	15,040,755	15,604,417

Ypsilanti District Library

Management's Discussion and Analysis (Continued)

Statement of Net Assets (Continued)

	November 30	
	2005	2004
Net Assets		
Invested in capital assets - Net of debt	\$ 4,180,178	\$ 4,062,315
Restricted for debt service payments	417,183	279,965
Restricted for donor-restricted purpose	8,146	50,613
Unrestricted	3,506,982	3,135,696
Total net assets	<u><u>\$ 8,112,489</u></u>	<u><u>\$ 7,528,589</u></u>

Statement of Activities

	Year Ended November 30	
	2005	2004
Revenue		
Property taxes	\$ 4,231,144	\$ 3,966,997
Other	652,022	512,288
Total revenue	4,883,166	4,479,285
Expenses	4,779,266	4,960,938
Change in Net Assets	<u><u>\$ 103,900</u></u>	<u><u>\$ (481,653)</u></u>

Full Accrual Analysis

The full accrual statement of activities shows an increase in net assets of \$583,900. The General Fund acquired \$740,237 in new capital assets while depreciation charges were \$1,287,550 for the year. The Debt Service Fund reduced the debt principal by \$695,000.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, total \$3,506,982. Unrestricted net assets increased during the year by \$371,286.

Modified Accrual Analysis

The General Fund pays for all of the Library's services. The most significant costs are for personnel and related staffing expenses of \$1,894,072, which accounted for 53 percent of the total operating expenditures in the year ended November 30, 2005. Library acquisition cost for materials and programs was \$436,740, or 12 percent of total operating expenditures. The remaining categories are: contractual services of \$234,010 (7 percent), automation and capital outlay, \$471,292 (13 percent), and other, which includes supplies, tax rebates, and other expenditures, \$521,874 (15 percent).

Ypsilanti District Library

Management's Discussion and Analysis (Continued)

Budgetary Highlights

For the year ended November 30, 2004, Ypsilanti District Library adopted GASB Statement Number 34 for reporting purposes to be in compliance with accounting principles generally accepted in the United States of America applied to governmental reporting units.

The Construction Fund, which was funded in 1999 by the issuance of general obligation bonds and by special allocations from the General Fund, was closed during the 2004 fiscal year. Construction of the Whittaker Road facility and renovation of the Michigan Avenue facility are considered to be complete and the purposes of the fund satisfied.

For the reporting periods ended November 30, 2004 and 2005, salary and other operating costs, including acquisitions, were reported by location. Previous reports included all salary and most other costs combined. It is believed that the change will provide for improved management oversight.

Capital Asset and Debt Administration

As of November 30, 2005, Ypsilanti District Library had \$18,619,686 invested in a broad range of capital assets, including building, collections, furniture, and equipment.

For the year ended November 30, 2005, Ypsilanti District Library purchased books at a cost of \$381,100 and other capital assets at a cost of \$359,137.

In 1999, when bonds were issued, Ypsilanti District Library's credit rating was A+. All payments for interest and principal have been made in accordance with the bond schedule.

Economic Factors and Next Year's Budgets and Rates

Ypsilanti District Library's budget for the fiscal year ending November 30, 2006 has included a conservative projection for tax revenues. During the year ended November 30, 2005, tax refunds caused by settled appeals exceeded \$13,000. The future for Visteon Corporation, a major taxpayer, is uncertain. Other industrial properties within the City of Ypsilanti remain unoccupied and future tax revenues from these properties are uncertain. Penal fines are budgeted using best judgment. There are changes in state-mandated fines pending that may affect the distribution of penal fines to the Library. State aid and revenue-sharing funds have been budgeted with no increases expected. There is a concern about the future status of state aid and revenue-sharing receipts are dependent upon the State legislature.

Operating costs were increased to reflect expected inflation without increases in quantities purchased. A three-year labor agreement was negotiated during the fiscal year ended November 30, 2005. For the fiscal year ending November 30, 2006, labor cost is estimated to increase by approximately 5 percent with only minor additions in staffing patterns.

Ypsilanti District Library

Management's Discussion and Analysis (Continued)

Ypsilanti Township established a local development finance authority to finance public infrastructure and promote economic growth at a site recently acquired by the Township. The board of trustees chose to participate in the LDFA.

In an attempt to expand the boundaries of the Library, the Library board initiated discussions with Superior Charter Township ("Superior") to give Superior the opportunity to become a participating municipality in the Library's district. In August 2006, Superior residents will vote whether or not to approve the levy of a district-wide millage equal to that currently paid by other residents in the Library's district.

Notable Progress

A resolution of the Library's Whittaker Road mechanical systems lawsuit was reached. The settlement agreement resulted in a \$480,000 payment to the Library to be used to correct heating and air conditioning issues at the Whittaker Road facility.

The \$240,000 renovation of the Library-owned park plaza located adjacent to its Michigan Avenue facility is close to completion. Developed as a downtown oasis, improvements include the redesigned fountain now clad with mosaic tile, outdoor seating, lighting, iron fence, game tables, trees and plantings, and a special outdoor youth story area complete with child-sized seating in the shape of books.

To date, contributions have been received in the amount of \$13,975 to add public art to the park. Renowned Colorado sculptor Jane DeDecker was commissioned to create a life-sized bronze sculpture of Harriet Tubman, which will serve as the park's centerpiece. The statue will be installed and the park formally dedicated in spring 2006.

Key Performance Indicators

- Items borrowed: 620,000 (approximately 3 percent increase over the year ended November 30, 2005)
- Program attendance: 25,000
- Reference questions answered: 116,743
- Percentage of population with library cards: 77 percent

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to provide accountability for the resources entrusted to the trustees and the management of Ypsilanti District Library. If you have questions about this report, or need additional information, contact the director, Jill Morey, at (734) 879-1300.

Ypsilanti District Library

	Modified Accrual Basis			
	HVAC			
	General Fund	Debt Service Fund	Reengineering Fund	Total
Assets				
Cash and investments (Note 3)	\$ 3,391,259	\$ 445,137	\$ 480,111	\$ 4,316,507
Property taxes receivable	94,459	53,815	-	148,274
Other receivables	40,501	-	-	40,501
Due from other governmental units	28,276	-	-	28,276
Due from General Fund	-	224,920	-	224,920
Fixed assets (Note 4)	-	-	-	-
Total assets	<u>\$ 3,554,495</u>	<u>\$ 723,872</u>	<u>\$ 480,111</u>	<u>\$ 4,758,478</u>
Liabilities				
Accounts payable	\$ 77,864	\$ -	\$ -	\$ 77,864
Accrued and other liabilities	46,951	-	-	46,951
Deferred revenue - Property taxes (Note 5)	85,231	306,689	-	391,920
Due to Debt Service Fund	224,920	-	-	224,920
Long-term liabilities (Note 7):				
Bonds payable - Due within one year	-	-	-	-
Accumulated employee benefits - Due within one year	-	-	-	-
Capital lease - Due within one year	-	-	-	-
Bonds payable - Due in more than one year	-	-	-	-
Capital lease - Due in more than one year	-	-	-	-
Total liabilities	434,966	306,689	-	741,655
Fund Balance				
Reserved:				
Debt Service	-	417,183	-	417,183
Yoder Memorial Fund	3,036	-	-	3,036
Yates Memorial Fund	3,327	-	-	3,327
Reaume Memorial Fund	1,783	-	-	1,783
Unreserved:				
Designated for working capital	750,000	-	-	750,000
Designated for improvement fund	1,360,859	-	-	1,360,859
Designated capital fund deficiency	362,867	-	-	362,867
Undesignated	637,657	-	480,111	1,117,768
Total fund balance	3,119,529	417,183	480,111	4,016,823
Total liabilities and fund balance	<u>\$ 3,554,495</u>	<u>\$ 723,872</u>	<u>\$ 480,111</u>	<u>\$ 4,758,478</u>
Net Assets				
Invested in capital assets - Net of related debt				
Restricted for debt service payments				
Restricted for donor-restricted purpose				
Unrestricted				
Total net assets				

General Fund Balance Sheet/Statement of Net Assets
November 30, 2005

Adjustments (Note 11)	Statement of Net Assets - Full Accrual Basis
\$ -	\$ 4,316,507
-	148,274
-	40,501
-	28,276
(224,920)	-
<u>18,619,686</u>	<u>18,619,686</u>
18,394,766	23,153,244
-	77,864
55,913	102,864
(85,231)	306,689
(224,920)	-
730,000	730,000
113,830	113,830
4,449	4,449
13,690,000	13,690,000
<u>15,059</u>	<u>15,059</u>
14,299,100	15,040,755
(417,183)	-
(3,036)	-
(3,327)	-
(1,783)	-
(750,000)	-
(1,360,859)	-
(362,867)	-
<u>(1,117,768)</u>	<u>-</u>
(4,016,823)	-
4,180,178	4,180,178
417,183	417,183
8,146	8,146
<u>3,506,982</u>	<u>3,506,982</u>
<u>\$ 8,112,489</u>	<u>\$ 8,112,489</u>

Ypsilanti District Library

	Modified Accrual Basis			
	HVAC			
	General Fund	Debt Service Fund	Reengineering Fund	Total
Revenue				
Property taxes	\$ 2,720,137	\$ 1,504,007	\$ -	\$ 4,224,144
Penal fines	155,511	-	-	155,511
Proceeds from insurance claim	62,407			62,407
State revenue-sharing	39,898	-	-	39,898
State aid:				
Direct	34,710	-	-	34,710
Indirect	34,710	-	-	34,710
Superior Township contract	92,000	-	-	92,000
Miscellaneous	100,736	-	-	100,736
Interest income	84,576	14,999	111	99,686
Donations	10,544	-	-	10,544
Friends of the Library gift	21,820	-	-	21,820
Total revenue	3,357,049	1,519,006	111	4,876,166
Expenditures				
Administration	1,374,830	-	-	1,374,830
Michigan Avenue	664,822	-	-	664,822
Bookmobile	43,220	-	-	43,220
Whittaker Road	1,453,366	-	-	1,453,366
Expenditures from donations revenue	21,750	-	-	21,750
Debt service:				
Principal	-	695,000	-	695,000
Interest	-	686,788	-	686,788
Total expenditures	3,557,988	1,381,788	-	4,939,776
Excess of Revenue Over (Under) Expenditures	(200,939)	137,218	111	(63,610)
Extraordinary Item - Proceeds from HVAC settlement	-	-	480,000	480,000
Change in Fund Balance/Net Assets	(200,939)	137,218	480,111	416,390
Fund Balance/Net Assets - December 1, 2004	3,320,468	279,965	-	3,600,433
Fund Balance/Net Assets - November 30, 2005	<u>\$ 3,119,529</u>	<u>\$ 417,183</u>	<u>\$ 480,111</u>	<u>\$ 4,016,823</u>

**Statement of General Fund Revenue, Expenditures, and
Changes in Fund Balance/Statement of Activities
Year Ended November 30, 2005**

Adjustments (Note 11)	Statement of Activities, Full Accrual Basis
\$ 7,000	\$ 4,231,144
-	155,511
-	62,407
-	39,898
-	34,710
-	34,710
-	92,000
-	100,736
-	99,686
-	10,544
-	21,820
7,000	4,883,166
(24,135)	1,350,695
(95,863)	568,959
19,822	63,042
637,273	2,090,639
-	21,750
(695,000)	-
(2,607)	684,181
(160,510)	4,779,266
167,510	103,900
-	480,000
167,510	583,900
3,928,156	7,528,589
<u>\$ 4,095,666</u>	<u>\$ 8,112,489</u>

Ypsilanti District Library

**Notes to Financial Statements
November 30, 2005**

Note I - Nature of Organization and Summary of Significant Accounting Policies

Ypsilanti District Library (the "Library") began operations as a district library in May 1983 when it began receiving tax revenue from Ypsilanti Township and the City of Ypsilanti.

The accounting policies of Ypsilanti District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Ypsilanti District Library:

Reporting Entity

The Library is governed by an elected seven-member board of trustees. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Modified Accrual and Full Accrual Data

The Library reports the following governmental funds:

General Fund - The General Fund contains the records of the ordinary activities of the Library that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, penal fines, state-shared revenue, and other sources.

Debt Service Fund - The Debt Service Fund is used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt.

HVAC Reengineering Fund - The HVAC Reengineering Fund is used to account for the activity associated with reengineering of the HVAC unit at the Whittaker Road location. This project is funded by a settlement awarded to the Library from the builder for not following the original plans when constructing the Library.

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

The funds are budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

In addition to presenting information for the separate funds, the basic financial statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Ypsilanti District Library

Notes to Financial Statements November 30, 2005

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Property Taxes

The Library district's borders encompass both the City of Ypsilanti (the "City") and Ypsilanti Township. Properties in each governmental unit are assessed as of December 31. The related operating taxes are billed to the City of Ypsilanti residents on July 1 and to Ypsilanti Township residents on December 1 of the following year. The debt millages are billed to all taxpayers within the Library district on December 1. The related property taxes become a lien on December 1. These taxes are due on September 1 and February 14, respectively, with the final collection date of February 28 before they are added to the county tax rolls. The taxable valuations and approximate levies of each unit are as follows:

	Within City	Within Township	Total
Approximate taxable valuation:			
December 31, 2003	\$345,181,000	\$1,400,929,000	
December 31, 2004	\$358,925,000	N/A	
Operating millage	1.5112 mils	1.5112 mils	
Date levied	July 1, 2005	December 1, 2004	
Approximate operating levy	\$553,000	\$2,167,000	\$2,720,000
Debt millage	0.8428 mils	0.8428 mils	
Date levied	December 1, 2004	December 1, 2004	
Approximate debt levy	\$296,000	\$1,208,000	\$1,504,000

Financial Statement Amounts

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments - Investments are recorded at fair value, based on quoted market prices.

Capital Assets - Generally, capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Library books, CDs, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite individually being below the \$1,000 capitalization threshold.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-40 years
Furniture and fixtures	10-20 years
Vehicles	7 years
Computer and office equipment	3-5 years
Site improvements	20 years
Collections	5 years

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the Library management and adopted by the Library board; subsequent amendments are approved by the Library board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at November 30, 2005 has not been calculated.

The budget process is initiated in June for the following fiscal year by a committee appointed by the board. This committee forecasts the financial implications for the upcoming fiscal year and forwards it to the Library director. The Library director develops a draft budget and submits it to the finance committee who reviews and revises the draft budget. The Library board then approves the budget after a public hearing in November.

The General Fund and Debt Service Fund budgets have been prepared in accordance with accounting principles generally accepted in the United States of America, with the exception that proceeds from an insurance claim and related expenditures have been recorded in revenue and expenditures, respectively, on the statement of General Fund revenue, expenditures, and changes in fund balance/statement of activities and netted together for budgeting purposes.

The budgetary comparison schedules for both the General and Debt Service Funds are presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a total basis for revenue and a departmental basis for expenditures; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations to the budget as adopted by the Library board can be seen by examining the totals in the budgetary comparison schedules for both the General and Debt Service Funds in the required supplemental information section. The line-item detail shown for revenue is not part of the adopted budget and is shown for management analysis only.

Excess of Expenditures Over Appropriations in the Budgeted Funds - During the current year, the Library did not budget for the expenditures from donations revenue as it is based upon the actual donations received. However, the donations revenue resulted in a favorable variance which offsets the unfavorable variance within the expenditures.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Library's deposits and investment policies are in accordance with statutory authority.

The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$3,209,732 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices. As of year end, the credit quality rating of its debt security investment is as follows:

Investment	Fair Value	Rating Organization	Rating
Bank investment pool	\$ 185,662	Moody's	Aaa

Ypsilanti District Library

Notes to Financial Statements November 30, 2005

Note 4 - Capital Assets

Capital asset activity of the Library is as follows:

	Balance November 30, 2004	Additions	Disposals and Adjustments	Balance November 30, 2005
Capital assets not being depreciated:				
Land	\$ 1,003,899	\$ -	\$ -	\$ 1,003,899
Construction in progress	5,326	245,291	-	250,617
Subtotal	1,009,225	245,291	-	1,254,516
Capital assets being depreciated:				
Buildings	16,387,585	32,919	-	16,420,504
Furniture and fixtures	1,660,433	19,215	-	1,679,648
Vehicles	167,358	13,100	-	180,458
Computer and office equipment	406,667	44,398	(25,789)	425,276
Site improvements	147,999	4,214	-	152,213
Collections - Library books, CDs, and audio/visual	3,150,803	381,100	-	3,531,903
Subtotal	21,920,845	494,946	(25,789)	22,390,002
Less accumulated depreciation for:				
Buildings	1,395,777	414,974	-	1,810,751
Furniture and fixtures	301,907	132,015	-	433,922
Vehicles	61,419	24,844	-	86,263
Computer and office equipment	172,946	86,470	(15,473)	243,943
Site improvements	3,700	7,611	-	11,311
Collections - Library books, CDs, and audio/visual	1,817,006	621,636	-	2,438,642
Subtotal	3,752,755	1,287,550	(15,473)	5,024,832
Net capital assets being depreciated	18,168,090	(792,604)	(10,316)	17,365,170
Total capital assets - Net of depreciation	\$ 19,177,315	\$ (547,313)	\$ (10,316)	\$ 18,619,686

Construction Commitments - The Library has active construction projects at year end. At year end, the Library's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Michigan Avenue park project	\$ 209,903	\$ 1,622
Tubman statue	15,666	31,334
Total	\$ 225,569	\$ 32,956

Ypsilanti District Library

Notes to Financial Statements November 30, 2005

Note 5 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. During the fiscal year ended November 30, 2005, the City changed the date of the collection of the debt levy from December 1 to July 1. These collections represents funds to be used for the library's November 30, 2006 debt payments, which are therefore unearned. As such, the entire levy has been recorded as deferred revenue in the Debt Service Fund. At the end of the current fiscal year, the deferred revenue recorded in the governmental activities, which consisted of both unavailable and unearned funds is as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes	\$ 85,231	\$ 306,689	\$ 391,920

Note 6 - Capital Lease

The Library has entered into a lease agreement as lessee for financing the purchase of copy machines. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

<u>Years Ending November 30</u>	<u>Amount</u>
2006	\$ 5,651
2007	5,651
2008	5,651
2009	<u>5,651</u>
Total minimum lease payments	22,604
Less amount representing interest	<u>(3,096)</u>
Present value	<u>\$ 19,508</u>

Ypsilanti District Library

Notes to Financial Statements November 30, 2005

Note 7 - Long-term Debt

Long-term debt activity can be summarized as follows:

	Balance November 30, 2004	Additions	Reductions	Balance November 30, 2005	Due Within One Year
Governmental Activities					
Bonds payable - 1999 General Obligation Bonds, original issue of \$17,635,000 maturing through 2019, with interest rates ranging from 4.50%-4.75%	\$ 15,115,000	\$ -	\$ (695,000)	\$ 14,420,000	\$ 730,000
Capital lease - Copiers with cost of \$32,758, payments through 2008, with an interest rate of 6.16%	-	32,758	(13,250)	19,508	4,449
Other long-term liabilities - Compensated absences	153,870	-	(40,040)	113,830	113,830
Total long-term debt and other long-term liabilities	<u>\$ 15,268,870</u>	<u>\$ 32,758</u>	<u>\$ (748,290)</u>	<u>\$ 14,553,338</u>	<u>\$ 848,279</u>

The compensated absences represent the estimated liability to be paid employees under the Library's vacation and sick pay policy. Under the Library's policy, employees earn vacation time based on time of service with the Library.

Debt Service Requirements

The annual requirements to service all debt outstanding as of November 30, 2005 (excluding employee benefits), including both principal and interest, are as follows:

Years Ending November 30	Principal	Interest	Total
2006	\$ 730,000	\$ 654,535	\$ 1,384,535
2007	770,000	620,785	1,390,785
2008	810,000	585,235	1,395,235
2009	850,000	547,885	1,397,885
2010	890,000	508,735	1,398,735
2011-2015	5,190,000	1,867,055	7,057,055
2016-2019	5,180,000	506,825	5,686,825
Total	<u>\$ 14,420,000</u>	<u>\$ 5,291,055</u>	<u>\$ 19,711,055</u>

Interest expense of the Library for the year ended November 30, 2005 approximated \$684,000.

Ypsilanti District Library

Notes to Financial Statements November 30, 2005

Note 8 - Reserved Fund Balance/Restricted Net Assets

Fund balance has been reserved for debt service in an amount equal to collections of debt millage in excess of bond payments to date.

The Library has received donations that have been restricted for expenditures relating to the development of the Library's collection. Fund balance has been reserved in an amount equal to the donation less any expenditures.

Both of the above items meet the criteria that also require the amounts to be restricted on the General Fund balance sheet/statement of net assets.

Note 9 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for medical claims and participates in the Michigan Municipal League Liability and Property Pool for claims relating to property and general liability and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Contribution Retirement Plan

The Library provides a pension plan to all of its employees who are over 21 years of age and earn more than \$450 annually through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of employment. As established by the board, the Library contributes 5 percent of employees' gross earnings and employees may contribute up to an additional 10 percent of earnings. The Library's contributions for each employee (plus interest allocated to the employee's account) are fully vested after the first deposit. In accordance with these requirements, the Library contributed \$53,404 during the year, and employees contributed \$45,818.

Ypsilanti District Library

Notes to Financial Statements November 30, 2005

Note 11 - Reconciliation of General Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's General Fund differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and the statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and the statement of activities versus the current financial resources focus of the General Fund balance sheet and the statement of revenue, expenditures, and changes in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified accrual basis	\$ 4,016,823
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	18,619,686
Property taxes were recorded as deferred revenue for governmental funds as funds were not received within 60 days of fiscal year	85,231
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(14,439,508)
Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds	(55,913)
Compensated absences are included as a liability	<u>(113,830)</u>
Total Net Assets - Full accrual basis	<u>\$ 8,112,489</u>

Required Supplemental Information

Ypsilanti District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended November 30, 2005

	Original Budget	Final Amended Budget	Actual Balance	Variance Favorable (Unfavorable)
Revenue				
Property taxes	\$ 2,696,804	\$ 2,696,804	\$ 2,720,137	\$ 23,333
Penal fines	150,000	155,000	155,511	511
State revenue-sharing	39,876	39,876	39,898	22
State aid:				
Direct	34,000	34,700	34,710	10
Indirect	34,000	34,700	34,710	10
Superior Township contract	46,000	92,000	92,000	-
Miscellaneous	88,500	93,500	100,736	7,236
Interest income	48,150	80,605	84,576	3,971
Donations	4,500	7,290	10,544	3,254
Friends of the Library gift	2,000	-	21,820	21,820
Total revenue	3,143,830	3,234,475	3,294,642	60,167
Expenditures				
Administration	1,272,490	1,411,184	1,374,830	36,354
Michigan Avenue	379,993	598,049	602,415	(4,366)
Bookmobile	49,135	44,450	43,220	1,230
Whittaker Road	1,445,212	1,479,320	1,453,366	25,954
Expenditures from donations revenue	-	-	21,750	(21,750)
Total expenditures	3,146,830	3,533,003	3,495,581	37,422
Excess of Expenditures Over Revenue	(3,000)	(298,528)	(200,939)	97,589
Fund Balance - December 1, 2004	3,348,384	3,320,468	3,320,468	-
Fund Balance - November 30, 2005	\$ 3,345,384	\$ 3,021,940	\$ 3,119,529	\$ 97,589

Ypsilanti District Library

Required Supplemental Information Budgetary Comparison Schedule - Debt Service Fund Year Ended November 30, 2005

	Original Budget	Final Amended Budget	Actual Balance	Variance Favorable (Unfavorable)
Revenue				
Property taxes	\$ 1,502,903	\$ 1,502,903	\$ 1,504,007	\$ 1,104
Interest income	3,600	3,600	14,999	11,399
Total revenue	1,506,503	1,506,503	1,519,006	12,503
Expenditures - Debt service				
Bank fees	250	250	-	250
Principal	695,000	695,000	695,000	-
Interest	686,598	686,598	686,788	(190)
Total expenditures	1,381,848	1,381,848	1,381,788	60
Excess of Revenue Over Expenditures	124,655	124,655	137,218	12,563
Fund Balance - December 1, 2004	269,056	279,965	279,965	-
Fund Balance - November 30, 2005	<u>\$ 393,711</u>	<u>\$ 404,620</u>	<u>\$ 417,183</u>	<u>\$ 12,563</u>

Other Supplemental Information

Ypsilanti District Library

Other Supplemental Information Schedule of Operating Expenditures - General Fund Year Ended November 30, 2005

	Salary and Benefits	Library Materials	Contractual	Automation and Capital Outlay	Other Designated Expenses	Total	Budget	Under (Over) Budget	Percent of Total
Administration	\$ 788,257	\$ -	\$ 197,961	\$ 230,059	\$ 158,553	\$ 1,374,830	\$ 1,411,184	\$ 36,354	38.6
Michigan Avenue	229,044	98,019	5,816	229,624	102,319	664,822	598,049	(66,773)	18.7
Bookmobile	37,374	-	-	-	5,846	43,220	44,450	1,230	1.2
Whittaker	839,397	316,971	30,233	11,609	255,156	1,453,366	1,479,320	25,954	40.9
Expenditures from donations revenue	-	21,750	-	-	-	21,750	-	(21,750)	0.6
Total	<u>\$ 1,894,072</u>	<u>\$ 436,740</u>	<u>\$ 234,010</u>	<u>\$ 471,292</u>	<u>\$ 521,874</u>	<u>\$ 3,557,988</u>	<u>\$ 3,533,003</u>	<u>\$ (24,985)</u>	<u>100.00</u>



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January 20, 2006

To the Finance Committee
Ypsilanti District Library
5577 Whittaker Road
Ypsilanti, MI 48197

We have recently completed our audit of the financial statements of Ypsilanti District Library for the year ended November 30, 2005. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the finance committee, board members, and others within the organization.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

We conducted our audit of the financial statements of Ypsilanti District Library in accordance with auditing standards generally accepted in the United States of America. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

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An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Reportable Conditions

In planning and performing our audit of the financial statements of the Ypsilanti District Library for the year ended November 30, 2005, we considered the Library's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matter noted is only that which came to our attention and, had our procedures in internal control related matters been more extensive, other matters may have been noted.

During our review of the cash disbursement policies, we noted that the administrative assistant has access to the checks and the check signing machine and has the ability to post to the general ledger. Although the Library's current system is set up to have an individual outside of the general ledger function prepare the checks, the administrative assistant has the authority to do all of those functions. We recognize there are inherent limitations in the Library's cash disbursement system due to the size of the organization, but we recommend limiting the access to the check signing machine to those individuals who do not have access to the general ledger. Since our audit, we have reviewed this with the Library director and administrative assistant, and we understand that they have already brainstormed and are planning to implement revised procedures that would call for the keys to the signature machine to be kept locked and under the control of the Library director. This revision would directly address the issue described above.

Significant Accounting Policies

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. We noted no matters related to sensitive accounting estimates.

Audit Adjustments

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. As a result of our audit, no significant adjustments were made to the financial statements.

Auditing standards also require us to inform the audit committee about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of the unrecorded possible financial statement adjustments is included as an attachment to this letter.

Other Information in Documents Containing Audited Financial Statements

When our audit report and the audited financial statements are included in a client document, we have a responsibility to read that document and consider whether anything therein is inconsistent with the information in the audited financial statements. It is our understanding that the audited financial statements are currently not expected to be included in any other document.

Disagreements with Management

There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements, or the wording of the auditor's report.

Consultation with Other Accountants

When management consults with other accountants about significant accounting and auditing matters, auditing standards require that we present our views on those matters to you. To our knowledge, there were no such consultations with other accountants.

Other Matters

In addition, the following other matters came to our attention during our audit:

- During the current year, a capital lease was entered into with Toshiba for copy machines. It is our understanding that any purchase over \$5,000 needs express approval from the board, and the Library director's signature on the agreement. As this lease called for a \$7,600 down payment, and approximately \$8,900 per year, this lease purchase appeared to fit your criterion and should have required board approval, for which none was noted within the board minutes. In addition, the previous IT director's signature approved the lease as opposed to the Library director. We encourage the Library to ensure the procedures put in place by the board are followed to be sure the internal controls remain strong.
- We noticed that the Library began to implement an added level of review to the bank reconciliations. We encourage the Library to ensure a timely review of the bank reconciliations to be sure any potential changes are made or caught quickly. However, we are pleased to see this added control was implemented as it strengthens the Library's internal control structure.
- During our audit, we noted that the Library does not have formal bidding procedures. Although we noted the board's involvement in most of the large expenditures during the current year (the park project, Tubman statue, etc.), in order to provide guidance to the staff and avoid misunderstandings, we recommend the board formally incorporate thresholds of when it is required to receive bids prior to incurring large expenditures.
- During the current year, the Library had many capital purchases, of which the items were appropriately approved by the board. In addition, these approvals were implied to have amended the budget. However, we recommend in the future that the board take these approvals one step further and request action of amending the budget for those specific items.

January 20, 2006

- Now that the Library has fully implemented the requirements of GASB Statement 34, we took a “look back” at the purchases of the Library’s collection, and it appears that the collection is well cared for and may have an estimated useful life greater than originally estimated. The Library may wish to reevaluate the estimated useful life of the various components of the collection. If you decide to use an estimated useful life longer than the current estimate, it may more closely match the actual utilization and deterioration of the collection over the years it is in service. This would reduce the annual depreciation expense on the “full accrual” statements. There would be no impact on the “fund-based” statements. This change would be applied prospectively to new purchases.

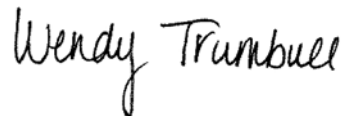
We would like to thank your staff and management for their assistance during the audit. We appreciate the opportunity to serve as your auditors. We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Leslie J. Pulver



Wendy N. Trumbull